

FEDERAL RESERVE SYSTEM

Amplicon, Inc.
Santa Ana, California

Order Approving Formation of a Bank Holding Company and Acquisition of a Bank

Amplicon, Inc. ("Amplicon") has requested the Board's approval under section 3(a)(1) of the Bank Holding Company Act ("BHC Act") (12 U.S.C. § 1842(a)(1)) to become a bank holding company by acquiring all the voting shares of California First National Bank, Santa Ana, California ("Bank"), a de novo bank. Amplicon also has requested the Board's approval under sections 4(c)(8) and 4(j) of the BHC Act (12 U.S.C. §§ 1843(c)(8) and 1843(j)) and section 225.24 of the Board's Regulation Y (12 C.F.R. 225.24) to retain certain nonbanking businesses and thereby engage in leasing personal property and acting as agent, broker, and adviser in leasing such property in accordance with section 225.28(b)(3) of the Board's Regulation Y (12 C.F.R. 225.28(b)(3)).

Notice of the proposal, affording interested persons an opportunity to comment, has been published (65 Federal Register 26,206 (2000)). The time for filing comments has expired, and the Board has considered the proposal and all comments received in light of the factors set forth in sections 3 and 4 of the BHC Act.

Amplicon is an operating company that provides personal property leases, concentrating on leasing computer networks and computer equipment to small businesses. Amplicon offers its products nationally through the Internet and by

traditional means. This proposal involves the acquisition of a de novo bank by Amplicon, which currently does not own a commercial bank.

Competition and Convenience and Needs Considerations

Section 3 of the BHC Act prohibits the Board from approving a proposal that would result in a monopoly or would be in furtherance of any attempt to monopolize the business of banking. The BHC Act also prohibits the Board from approving a proposed acquisition that substantially would lessen competition or tend to create a monopoly in any relevant banking market, unless the anticompetitive effects clearly are outweighed in the public interest by the probable effect of the proposal in meeting the convenience and needs of the community to be served.¹

As noted above, consummation of the proposal would result in the establishment of a de novo bank, which would increase the number of alternative sources of banking products and services available to consumers. Accordingly, the Board concludes that consummation of the proposal would not have a significantly adverse effect on competition or on the concentration of banking resources in any relevant banking market, and that competitive considerations are consistent with approval.

¹ 12 U.S.C. § 1842(c)(1).

Section 3 of the BHC Act also requires the Board to consider the effect of the transaction on the convenience and needs of the communities to be served. The Board has reviewed information presented by Amplicon related to the convenience and needs factor and other information and concludes, based on all the facts of record, that considerations relating to convenience and needs are consistent with approval.²

Financial and Managerial Considerations

Section 3 of the BHC Act requires the Board to consider the financial and managerial resources and future prospects of the companies and banks involved in a bank acquisition proposal. As part of this analysis, the Board has reviewed Amplicon's operating plan for Bank and notes that Bank has hired experienced management that possesses significant leasing experience acquired independently of Amplicon. In addition, the Board has taken into account Amplicon's record of offering lease financing and other products and services through the Internet and related technologies, and Amplicon's capital level, cash reserves, and ability to serve as a source of strength to Bank. The Board also has reviewed confidential supervisory and examination information and publicly reported financial and other information. Moreover, the Board has consulted with the OCC on the financial and managerial resources and operating plan of Bank, particularly with respect to Bank's proposal to purchase a significant volume of leases from Amplicon during

² Amplicon has requested that Bank be treated as a wholesale bank for purposes of the Community Reinvestment Act (12 U.S.C. § 2901 *et seq.*). The Bank's primary federal supervisor, the Office of the Comptroller of the Currency (the "OCC"), has approved that request.

the first several years of Bank's operation.

In reliance on a Board interpretation and related interpretive letters identifying certain transactions that are not covered transactions for purposes of section 23A of the Federal Reserve Act, Amplicon has proposed that Bank would acquire leases originated by Amplicon that national banks are permitted to originate and hold.³ Amplicon has committed that these lease purchases will conform in all respects to the limitations set forth in the Board's interpretation.

The Board notes that one of the foundations of the interpretation describing transactions that are not covered by the limitations in section 23A of the Federal Reserve Act is that each transaction must be reviewed by bank personnel with authority to make a credit judgment that is independent of the credit judgment of the affiliate that originates the transaction. This policy was adopted in the context of allowing an existing bank with multiple sources of earning assets to take advantage of an investment opportunity presented by an affiliate that is relatively small when compared with the bank. It is more difficult to ensure that the bank's credit judgment will be independent of its affiliate's when the affiliate originating the transaction is much larger than the bank, and the bank has limited independent sources from which to acquire or generate assets.

The Board has weighed these concerns carefully in reviewing the facts of this

³ See 12 U.S.C. § 371c. See also 12 C.F.R. 250.250 and Letter dated April 24, 1995, from the Board's General Counsel to the General Counsel of the Federal Deposit Insurance Corporation.

case. To address these concerns, Amplicon has made certain commitments to ensure that Bank's purchases of leases from Amplicon are conducted in accordance with the relevant interpretations, and that such transactions are conducted in a safe and sound manner. In particular, these commitments are designed to ensure that Bank will exercise independent credit judgment when purchasing leases from its affiliate, to limit the amount of assets it can acquire from Amplicon, and to ensure that Amplicon will not rely on Bank to meet its working capital needs.

In the future, the Board may review the policy in 12 C.F.R. 250.250 to ensure that the safeguards in that interpretation are not impaired when a bank generates a significant amount of its assets from transactions that involve its affiliate. Accordingly, Amplicon also has committed that it will conform the operations of Bank to any amendments the Board may make concerning the policy in 12 C.F.R. 250.250.

In addition to the commitments described above, Amplicon has committed that Amplicon and Bank will remain well capitalized, and that Amplicon will provide any additional capital necessary to enable Bank to meet its liquidity demands. Moreover, Bank has hired experienced staff to review and determine the creditworthiness of lessees before Bank's agreement to acquire and Amplicon's commitment to enter into a lease.

Based on the foregoing and after consulting with the OCC, Bank's primary federal supervisor, the Board has determined not to object to the proposed lease purchase transactions between Bank and Amplicon.

After considering all the facts of record, including commitments made by Amplicon, the Board concludes that the financial and managerial resources and future prospects of Amplicon and Bank are consistent with approval, as are the

other supervisory factors the Board must consider under section 3 of the BHC Act.

Nonbanking Activities

Amplicon also has filed a notice under sections 4(c)(8) and 4(j) of the BHC Act to engage in leasing personal property and acting as agent, broker, and advisor in leasing personal property. The Board has determined by regulation that personal property leasing activities are closely related to banking for purposes of the BHC Act.⁴ Amplicon has committed to conduct all its nonbanking activities in accordance with the limitations set forth in Regulation Y and all relevant Board orders and interpretations.

In order to approve this notice, the Board is required by section 4(j)(2)(A) of the BHC Act to determine that the retention and continuation by Amplicon of its nonbanking activities “can reasonably be expected to produce benefits to the public . . . that outweigh possible adverse effects, such as undue concentration of resources, decreased or unfair competition, conflicts of interests, or unsound banking practices.”⁵

As part of its evaluation of these factors, the Board has carefully reviewed the financial and managerial resources of Amplicon and Bank and the effect the transaction would have on such resources. For the reasons discussed above, and based on all the facts of record, including the commitments made in this case, the Board concludes that the financial and managerial resources of the organizations

⁴ See 12 C.F.R. 225.28(b)(3).

⁵ 12 U.S.C. § 1843(j)(2)(A).

involved in the proposal are consistent with approval. The Board also expects that the proposed transaction would increase Amplicon's ability to serve its customers. As noted above, the Board will monitor carefully lease purchase transactions between Amplicon and Bank.

The Board concludes that the conduct of the proposed nonbanking activities within the framework established under Regulation Y is not likely to result in adverse effects, such as undue concentration of resources, decreased or unfair competition, conflicts of interests, or unsound banking practices, that would outweigh the public benefits of the proposal, such as increased customer convenience and gains in efficiency. Accordingly, based on all the facts of record, the Board has determined that the balance of public benefits that the Board must consider under section 4 of the BHC Act is favorable and consistent with approval of the notice.

Conclusion

Based on the foregoing, and in light of all the facts of record, the Board has determined that the application and notice should be, and hereby are, approved. The Board's approval is specifically conditioned on compliance by Amplicon with all the commitments made in connection with the application and notice and the conditions in this order. The Board's determination on the nonbanking activities also is subject to all the conditions set forth in this order and in Regulation Y, including those in sections 225.7 and 225.25(c) (12 C.F.R. 225.7 and 225.25(c)), and to the Board's authority to require such modification or termination of the activities of a bank holding company or any of its subsidiaries as the Board finds necessary to ensure compliance with, and prevent evasion of, the provisions of the BHC Act and the Board's regulations and order thereunder. For the purpose of this

action, the commitments and conditions relied on by the Board in reaching its decision are deemed to be conditions imposed in writing by the Board in connection with its findings and decision and, as such, may be enforced in proceedings under applicable law.

The acquisition of Bank shall not be consummated before the fifteenth calendar day after the effective date of this order, and the proposal shall not be consummated later than three months after the effective date of this order, unless such period is extended for good cause by the Board or the Federal Reserve Bank of San Francisco, acting pursuant to delegated authority.

By order of the Board of Governors, effective April 23, 2001.⁶

(Signed)

Robert deV. Frierson
Associate Secretary of the Board

⁶ Voting for this action Chairman Greenspan, Vice Chairman Ferguson, and Governors Kelley and Gramlich. Absent and not voting: Governor Meyer.